

Companies started by Albert Hee being liquidated

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Two Hawaii companies founded by convicted tax cheat Albert Hee are losing their grip on what once appeared to be a lucrative, government-subsidized business providing telecommunications services on Hawaiian homelands.

A U.S. marshal on Friday auctioned vital assets of Sandwich Isles Communications Inc., including 109 miles of fiber-optic cable, a state Department of Hawaiian Home Lands license agreement, computer operating systems, offices on several islands and about 150 acres of real estate.

The company, which continues to

operate, is led by Chief Executive Breanne Kahalewai, a daughter of Hee.

Kahalewai and an attorney representing Sandwich Isles could not be reached for comment Friday.

The high bidder for the assets was a court-appointed trustee representing another company established by Hee and owned by Hee's three children, Paniolo Cable Co., which was forced into Chapter 11 bankruptcy by creditors two years ago.

Sandwich Isles was established in 1995 and provides telecom services to



Hee

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about 3,600 residential and business customers on Hawaiian homelands across the state using infrastructure it developed on DHHL land. The company also leases infrastructure that includes undersea cabling and cable landing base stations developed and owned by Paniolo Cable.

Michael Katzenstein, a corporate restructuring expert with Washington, D.C.-based firm FTI Consulting Inc. who serves as Paniolo Cable's trustee, won a \$257 million judgment against Sandwich Isles in January on behalf of Paniolo's creditors after filing the equivalent of a lawsuit in U.S. Bankruptcy Court in Honolulu last year.

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AUCTION

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Katzenstein, who relied on local attorney Jonathan Bolton to relay his bid on the steps of U.S. District Court in Honolulu, offered \$2.5 million for the Sandwich Isles assets on behalf of Paniolo Cable.

"Are there any other bidders?" asked U.S. Marshal Charles Goodwin. "There being no other bidders — going once, twice, three times — sold to Mr. Katzenstein."

Katzenstein and Paniolo Cable don't have to pay any one \$2.5 million because that sum essentially will be deducted from the \$257 million Sandwich Isles owes Paniolo Cable.

The so-called credit bid is subject to confirmation by a Bankruptcy Court judge, but no one else may seek to out-

bid Katzenstein at this point under rules of the auction.

Friday's sale could allow for the assets of Sandwich Isles to be resold to a new owner in conjunction with the assets of Paniolo Cable.

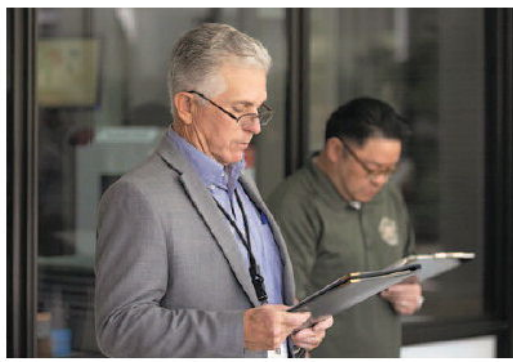
Paniolo Cable owns about 358 miles of undersea and overland fiber-optic lines linking Kauai, Oahu, Molokai, Maui and Hawaii island.

A bankruptcy sale of Paniolo Cable assets is set for a bid and auction procedure later this month and early next month.

A bid deadline is March 27, and an auction to entertain higher competing bids could be held April 6, according to court documents.

The two auctions are the latest steps in a long effort to straighten out telecom businesses that Hee built with hefty public subsidies before the downfall of the companies and their founder.

Hee was indicted in 2014



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U.S. Marshal Charles Goodwin held a foreclosure auction Friday of all the assets of telecom provider Sandwich Isles Communications Inc. at the U.S. District Court.

on tax fraud charges stemming from allegations he claimed bogus business expenses that included \$505,502 for jewelry worn by his wife and two daughters, \$92,000 for massages, a \$1.3 million house used exclusively by his

children and \$752,082 for college tuition, books and rent for his children.

A federal jury convicted him of federal tax fraud in 2015, and in 2016 a judge imposed a 46-month prison sentence on Hee for having

\$2.75 million of personal expenses claimed as business expenses by the parent company of Sandwich Isles, Waimana Enterprises Inc.

Sandwich Isles ran into trouble with the Federal Communications Commission around the same time.

The company had received more than \$249 million from the federal Universal Service Fund — money generated by fees paid by telecom customers across the country — to support Sandwich Isles operations. But the FCC trimmed the annual subsidies in 2010 and then cut off all or nearly all of the subsidy in 2015.

Sandwich Isles also borrowed more than \$166 million from the U.S. Department of Agriculture's Rural Utilities Service to finance construction of its network. USDA officials disclosed in 2016 that Sandwich Isles still owed the agency

more than \$108 million and had defaulted on USDA loans as early as 2013 and 2014.

In late 2016 the FCC imposed \$76 million in penalties against Sandwich Isles, though the company contested the decision.

Meanwhile, Sandwich Isles' financial troubles bled over to Paniolo Cable, which relied on income from Sandwich Isles for connecting to its interisland fiber-optic network.

Creditors of Paniolo Cable, including HSBC Securities (USA) Inc. and Deutsche Bank, forced the cable company into bankruptcy and sought repayment of debts totaling about \$257 million.

According to FCC documents, Paniolo Cable's fiber-optic network is a valuable asset with enough capacity to provide broadband service to the entire state, though only a small fraction of that capacity has been used.